



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

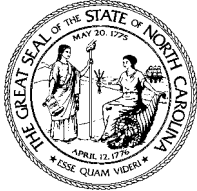
STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
KINSTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

CHAIRMAN OF THE BOARD OF DIRECTORS

THE HONORABLE MICHAEL F. EASLEY

CHARLES H.W. EDWARDS, ACTING EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The Members of the North Carolina General Assembly
The Board of Directors, North Carolina Global TransPark Authority

This report presents the results of our financial statement audit of the North Carolina Global TransPark Authority (the Authority), a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the Authority are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the Authority were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to the Authority. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to the North Carolina Global TransPark Authority. A summary of our reporting objectives and audit results are:

- 1. Objective** - To express an opinion on the accompanying financial statements that relate solely to the North Carolina Global TransPark Authority.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. We did not audit the accompanying Management Discussion and Analysis. These results are more fully described in the Independent Auditor's Report.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Authority's ability to initiate, record, process, and report financial data in the financial statements and to present instances of noncompliance, if any, with laws, regulations, contracts or grants.

Results - Our tests disclosed no material weaknesses in internal control which require disclosure herein under *Government Auditing Standards*.

The following instance of noncompliance was noted as a result of our audit:

Finding

Funds Were Not Deposited on a Timely Basis

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
North Carolina Global TransPark Authority
Kinston, North Carolina

We have audited the accompanying Statement of Net Assets of the North Carolina Global TransPark Authority (Authority), a component unit of the State of North Carolina, as of June 30, 2002 and the related Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Global TransPark Authority as of June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS (CONCLUDED)**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2003, on the results of our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.



Ralph Campbell, Jr.
State Auditor

March 14, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

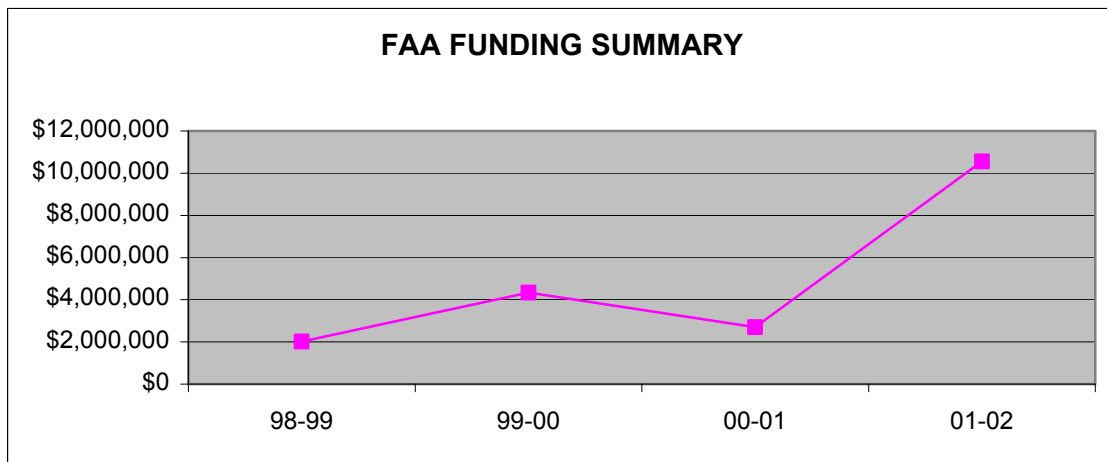
The discussion and analysis provides an overview of the North Carolina Global TransPark Authority's (Authority) activities during the fiscal year ended June 30, 2002. In addition to the management's discussion and analysis, management has prepared the accompanying Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

Financial

In fiscal year 1998-1999, the Authority moved its headquarters from Raleigh to Kinston. In this time frame, the Federal Aviation Administration (FAA) and the State of North Carolina agreed to fund \$17.5 million each towards the North Carolina Global TransPark project. The \$35 million joint funding agreement truly made the organization operational. The Authority received the FAA's final grant in fiscal year 2002, completing FAA's commitment.

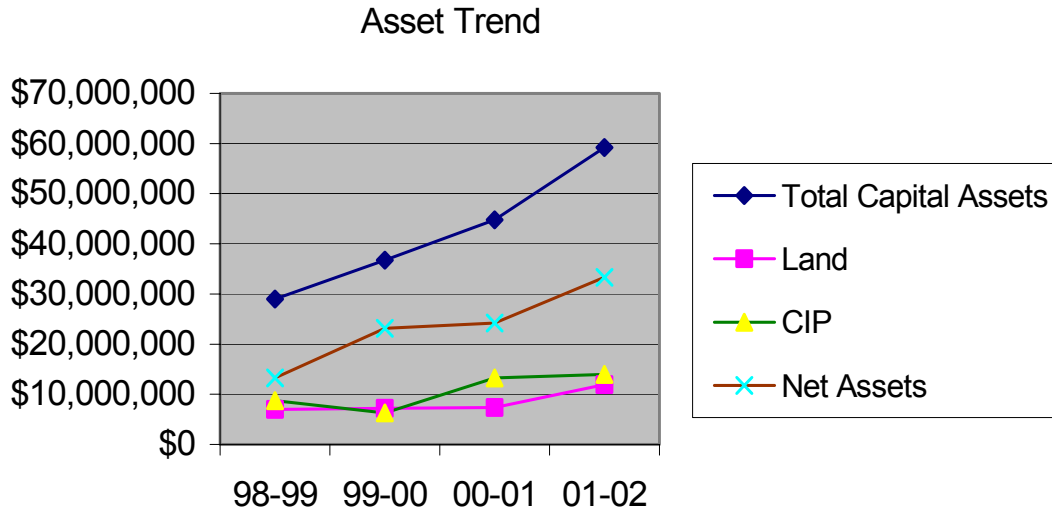
Since 1998-1999, the Authority has been in a development mode, not only with the "Runway Expansion Project" that extended the runway to 11,500 feet, but also with other airport projects, land acquisition, including environmental commitments, and other construction projects. The Authority was at its peak in construction projects for fiscal year ended June 30, 2002, with double-nested T-hangars and two buildings built at the TransPark. A 58,800 square foot state-of-the-art, design-build cargo building was built, as well as an 8,800 square foot administration building adjacent to the Education and Training Center.

The following graph illustrates the FAA funding since fiscal year 1999 with funding of \$2 million to funding in fiscal year 2002 of \$10.6 million. Total funding for this time span is \$20.5 million. It is anticipated that FAA funding will decrease significantly in the future.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following graph depicts the trend in assets for the same time periods, which includes land, construction in progress, net assets, as well as total assets. Total capital net assets in fiscal year 1999 totaled \$29 million and has a steady growth pattern, reaching \$59.2 million in fiscal year 2002. There will be an increase in land acquisitions, but there will be a slower growth pattern in assets overall in the future.



At June 30, 2002, the \$27,648,908 balance due to the North Carolina Escheat Fund increased by \$892,056. This increase was due to accrued interest. The loan is payable on September 1, 2004. The investment balance of the loan in the amount of \$13,814,491 decreased by \$5,858,579. These funds were used for the construction of the cargo building, T-hangars, administration building and for land and land services. The funds drawn down for the administration building were repaid, with interest, to the Escheat Fund upon the closing of a USDA loan in October, 2002.

Financial Statement Analysis

The financial statements of the Authority, which include the Statements of Net Assets, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows, are the measurement of the overall financial condition of the organization. The Statement of Net Assets depicts the financial value as of June 30, 2002, while the other financial statements show the movement of financial elements throughout the fiscal year.

The Statement of Net Assets showed a decline in the Investment on Deposit by 29.8% with the State Treasurer due to draw downs for land acquisition and construction of infrastructure, while net capital assets increased by 32% from the prior fiscal year, showing a total asset

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

increase of 12%. There was a significant decrease of 127% in current liabilities due mainly to the decrease in contractor's liabilities on the Runway Project. Overall, there was an increase in Total Net Assets of 22.8% from the prior fiscal year.

For the fiscal year the Authority showed a 25% increase in operating revenues due to an increase in tenant revenues, while showing a significant increase of 49% in total nonoperating revenues, which is due mainly to the increase in federal funding for the fiscal year. Operating expenses increased at an insignificant rate of 9%; the increase is only 4% excluding depreciation. The following table depicts these changes:

	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Percent</u>
Operating Revenues	\$ 379,641	\$ 303,704	\$ 75,937	25%
Nonoperating Revenues (includes State Appropriations)	15,910,497	10,646,997	5,263,500	49%

Overall, the Authority's liquidity position remained stable. The significant use of cash (\$17 million) for the fiscal year was for the acquisition and construction of capital assets.

The following is a summary of the change in cash and cash equivalents for the fiscal year ended June 30, 2002:

Cash Flows

Net Cash Provided From (Used For):	
Operating Activities	\$ (2,392,998)
Noncapital Financing Activities	2,478,833
Capital and Related Financing Activities	(1,187,430)
Investing Activities	<u>2,032,196</u>
Net Increase	930,601
Cash and Cash Equivalents at Beginning of Year	<u>12,332,246</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 13,262,847</u></u>

North Carolina Global TransPark Authority
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 2)	\$ 13,259,093
Investment on Deposit with State Treasurer (Note 2)	13,814,491
Accounts Receivable (Net)	82,282
Accrued Interest Receivable	54,146
Total Current Assets	27,210,012
Noncurrent Assets:	
Cash and Cash Equivalents (Note 2)	3,754
Capital Assets, Net (Note 3)	59,218,610
Total Noncurrent Assets	59,222,364
Total Assets	\$ 86,432,376
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 1,315,258
Due to Primary Government	8,848
Deposits Payable	11,000
Note Payable - USDA (Note 4)	6,144
Compensated Absences	48,293
Deferred Revenue	25,005
Total Current Liabilities	1,414,548
Noncurrent Liabilities:	
Note Payable- USDA (Note 4)	654,491
Note Payable- Due to NC Escheat Fund (Note 4)	27,648,908
Compensated Absences	47,612
Total Noncurrent Liabilities	28,351,011
Total Liabilities	\$ 29,765,559
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 47,372,466
Restricted for Debt Service	3,754
Unrestricted	9,290,597
Total Net Assets	\$ 56,666,817

The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Global TransPark Authority			
Statement of Revenues, Expenses and Changes in Net Assets			
For the Fiscal Year Ended June 30, 2002			Exhibit B
OPERATING REVENUES			
Rental Revenue		\$	319,178
Miscellaneous Revenues			60,463
Total Operating Revenues			379,641
OPERATING EXPENSES			
Salaries and Benefits			1,351,770
Contract Services			444,908
Legal and Accounting			126,486
Utilities			189,717
Repairs and Maintenance			57,176
Rent			41,796
Travel and Subsistence			30,817
Telephone			84,791
Insurance			27,175
Printing and Binding			73,101
Advertising			70,244
Supplies and Materials			75,138
Landing fields and grounds			3,547
Equipment			76,804
Depreciation			1,485,474
Other			51,857
Total Operating Expenses			4,190,801
Operating loss			(3,811,160)
NONOPERATING REVENUES (EXPENSES)			
State Operating Aid			2,469,036
Investment Earnings			2,035,716
Interest Expense			(2,243,089)
Noncapital grants			8,250
Nonoperating Revenues (Expenses)			2,269,913
Loss before Contributions			(1,541,247)
State Capital Aid			527,536
Other Capital Grants			10,869,959
Increase in Net Assets			9,856,248
Net Assets- July 1			46,163,888
Restatements (Note 1.L)			646,681
Net Assets - June 30		\$	56,666,817
The accompanying notes to the financial statements are an integral part of this statement.			

<i>North Carolina Global TransPark Authority</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers		\$ 378,263
Payments to Vendors		(1,378,575)
Payments to Employees and Fringe Benefits		(1,392,686)
Net Cash Used For Operating Activities		(2,392,998)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		2,469,036
Grants		9,797
Net Cash Provided From Noncapital Financing Activities		2,478,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received		2,032,196
Net Cash Provided From Investing Activities		2,032,196
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets		(17,086,606)
Proceeds from Capital Debt		5,858,579
State Capital Appropriations		450,080
State Capital Grants		77,456
Federal Capital Appropriations		10,849,959
Grants		20,000
Principal Payments on Capital Debt		(5,865)
Interest Payments on Capital Debt		(1,351,033)
Net Cash Used For Capital and Related Financing Activities		(1,187,430)
Net Increase in Cash and Cash Equivalents		930,601
Cash and Cash Equivalents at Beginning of Year		12,332,246
Cash and Cash Equivalents at End of Year		<u>\$ 13,262,847</u>

North Carolina Global TransPark Authority		
Statement of Cash Flows		<i>Exhibit C</i>
For the Fiscal Year Ended June 30, 2002		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (3,811,160)
Adjustments to Reconcile Changes in Fund Balance to Net Cash Provided by Operating Activities:		
Depreciation		1,485,474
Increase in Accounts Receivables		(44,282)
Decrease in Accounts Payable		(27,381)
Decrease in Accrued Vacation		(33,565)
Increase in Due to Primary Government		2,861
Increase in Deferred Revenue		24,055
Increase in Deposit Liability		11,000
Net Cash Used by Operating Activities		<u>(2,392,998)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability		5,170,798
Change in Capital Assets as a Result of Accrual Accounts Payable		<u>\$ (1,831,386)</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		13,259,093
Noncurrent Assets:		
Restricted Cash and Cash Equivalents- Debt Service		3,754
Total Cash and Cash Equivalent Balances		<u>13,262,847</u>
The accompanying notes to the financial statements are an integral part of this statement.		

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NORTH CAROLINA GLOBAL TRANSPARK AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The North Carolina Global TransPark Authority (Authority), formerly the North Carolina Air Cargo Airport Authority was created on July 16, 1991, upon ratification by the General Assembly of North Carolina of Senate Bill 649. The Authority is a State agency located within the North Carolina Department of Transportation but exercises its powers independent of the Secretary of Transportation. It was created to administer the development of the North Carolina Global TransPark, an international Global TransPark complete with transportation links, dedicated intrafacility distribution systems and state of the art communication systems. By law, the Authority is empowered to acquire all property required for the project and issue bonds and notes to finance the project.

B. Financial Reporting Entity - The North Carolina Global TransPark Authority is an integral part of the State's reporting entity and is included as a component unit in the State of North Carolina's *Comprehensive Annual Financial Report* (CAFR). Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State.

As required by General Statute 63A-3, certain elected State officials appoint thirteen of the North Carolina Global TransPark Authority's twenty board members. Three board members serve by virtue of their State positions, two serve at the pleasure of the President of the University of North Carolina and the President of the North Carolina System of Community Colleges. The remaining two board members are appointed by the Kinston City Council and the Lenoir County Commissioners.

Kinston Regional Jetport - On October 12, 1998, the Authority exercised its option to purchase substantially all of the assets of the Lenoir County-City of Kinston Airport Commission. The transfer of property occurred on December 31, 1998.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The accompanying financial statements present all funds for which the Authority's Board of Directors are accountable.

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with generally accepted accounting principles in the United States of America as prescribed by Governmental Accounting Standards Board (GASB), which consist of GASB Statements and Interpretations, as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to State and local government entities by GASB Statements and Interpretations. The full scope of the Authority's activities is considered to be a single business type activity and accordingly, is reported within a single column in the basic financial statements.
- D. Basis of Accounting** - The Authority is accounted for as a proprietary fund type (enterprise fund) in conformity with the accounting and reporting requirements of the Governmental Accounting Standards Board (GASB). The financial statements were prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the Authority does not apply FASB pronouncements issued after November 30, 1989 for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- E. Cash and Cash Equivalents** - This classification consists of the Authority's equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer, cash on hand, and cash on deposit in private bank accounts. The funds on deposit with the State Treasurer are available on demand. This classification also appears on the accompanying statement of cash flows.
- F. Investments** - This classification consists of the Authority's equity position in the Long-Term Investment Fund managed by the North Carolina State Treasurer. This investment is stated at cost because the Authority does not participate in the gains or losses resulting from the activity of the Long-Term Investment Fund.
- G. Accounts Receivable** - Accounts Receivable are shown in the accompanying financial statements net of allowances for doubtful accounts of \$9,839.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- H. Capital Assets and Depreciation** - The Authority capitalizes all assets that have a value or cost greater than or equal to \$5,000 at the date of acquisition. Depreciation is computed using the straight-line method over the following useful lives; buildings range from 10-50 years, landing fields and grounds range from 20-40 years and equipment ranges from 5-10 years.
- I. Restricted Assets** - Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and unused vacation leave that is not expected to be paid within the next fiscal year.
- K. Compensated Absences** - The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th. When unused vacation leave is classified into current and noncurrent, leave is considered taken using a last in, first out method.

The Authority has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

- L. Restatements** - Beginning net assets have been restated due to corrections of land transactions in prior fiscal years.
- M. Net Assets** - The Authority's net assets are classified as follows:
- Invested in Capital Assets, Net of Related Debt** – This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- Restricted Net Assets**- Restricted net assets include resources in which the Authority is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unrestricted Net Assets - Unrestricted net assets include resources derived from operating state appropriations, tenant revenues, and interest income.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. State Treasurer's Short-Term Investment Fund** - The amount shown on the Statement of Net Assets as cash and cash equivalents includes \$13,095,565 which represents the Authority's equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer. Credit and custodial risk disclosures and the authorized investments for funds managed by the State Treasurer can be found in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Private Bank Accounts** - The amount shown on the balance sheet as cash and cash equivalents includes deposits in private bank accounts with a carrying value of \$167,082 and a bank balance of \$230,968. Of the bank balance, \$100,000 was covered by federal depository insurance and \$130,968 was uninsured.
- C. Authority Investments - Long-Term Investment Fund** - As authorized by General Statute 63A-4(a)(22), the Authority borrowed \$25,000,000 from the North Carolina Escheat Fund on August 31, 1994. As required by the loan agreement, the proceeds were deposited with the State Treasurer in the State Treasurer's Long-term Investment Fund and have been pledged as collateral for the loan. Interest earned on the investment on deposit with the State Treasurer totaled \$1,319,374 for the year ended June 30, 2002. Credit and custodial risk disclosures and the authorized investments for funds managed by the State Treasurer can be found in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets is presented as follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Capital Assets, Non-depreciable				
Land	\$ 7,339,038	\$ 4,576,786	\$ (1,248)	\$ 11,914,576
Construction in Progress	13,263,744	11,882,407	(11,161,896)	13,984,255
Total Capital Assets, Non-Depreciable	<u>20,602,782</u>	<u>16,459,193</u>	<u>(11,163,144)</u>	<u>25,898,831</u>
Capital Assets, Depreciable				
Landing Fields and Grounds	17,874,729	5,797,657		23,672,386
Buildings	11,438,887	4,604,100		16,042,987
Equipment	2,431,068	204,096		2,635,164
Total Capital Assets, Depreciable	<u>31,744,684</u>	<u>10,605,853</u>		<u>42,350,537</u>
Less Accumulated Depreciation for:				
Landing Fields and Grounds	(4,457,925)	(717,742)		(5,175,667)
Buildings	(1,819,364)	(428,693)		(2,248,057)
Equipment	(1,267,995)	(339,039)		(1,607,034)
	<u>(7,545,284)</u>	<u>(1,485,474)</u>		<u>(9,030,758)</u>
Total Capital Assets, Depreciable, Net	24,199,400	9,120,379		33,319,779
Total Capital Assets, Net	<u>\$ 44,802,182</u>	<u>\$ 25,579,572</u>	<u>\$ (11,163,144)</u>	<u>\$ 59,218,610</u>

NOTE 4 - NOTE PAYABLE

A. North Carolina Escheat Fund - The \$25,000,000 plus the net accrued interest expense of \$2,648,908, represents a balance of \$27,648,908 due to the North Carolina Escheat Fund at June 30, 2002. It is payable on September 1, 2004, bears interest at a variable rate based upon the earnings record of the State Treasurer's Long-Term Investment Fund and is collateralized at June 30, 2002 by the \$13,814,491 deposit in the Long-Term Investment Fund with the State Treasurer and by real property. Additional collateral can be substituted for the deposit with the State Treasurer when the Authority deems it necessary to withdraw funds for its statutory purpose. Interest expense on the loan with the State Treasurer was \$2,211,430 for the year ended June 30, 2002. Interest earned on the invested portion of the loan is disclosed in Note 2C.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. United States Department of Agriculture (USDA) – The Authority was indebted for two USDA loans for the construction of Fixed Base Operator (FBO) hangars at the Global TransPark. The loan information is shown in the following table:

Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/02	Principal Outstanding 6/30/03
4.75%	6/21/41	666,500	5,865	660,635

The annual requirements to pay principal and interest on the notes at June 30, 2002 are presented as follows:

Fiscal Year	Principal	Interest
2003	\$ 6,144	\$ 31,380
2004	6,436	31,088
2005	6,741	30,783
2006	7,061	30,463
2007	7,397	30,127
2008-2012	42,601	145,019
2013-2017	53,728	133,892
2018-2022	67,757	119,863
2023-2027	85,455	102,165
2028-2032	107,770	79,850
2033-2037	135,918	51,702
2038-2041	133,627	16,469
Total Requirements	\$ 660,635	\$ 802,801

NOTE 5 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	27,881
2004	27,881
2005	27,881
2006	24,426
Total Minimum Lease Payments	\$ 108,069

Rental expenses for all operating leases during the year was \$31,080.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries insurance through the North Carolina Department of Insurance for risks of loss.

Tort claims of up to \$500,000 are self insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the Authority directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses which carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

All State owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in State are \$500,000 per claimant and \$5,000,000 per occurrence. The Authority is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State with a limit of \$5,000,000 per occurrence, subject to a \$50,000 deductible and a 10% participation in each loss above the deductible. The coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. In addition, the Authority has a separate public employee dishonesty and faithful performance policy with a limit of \$1,000,000.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a Pension and Other Employee Benefit Trust fund of the State. The Plan is funded by employer and employee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several health maintenance organizations.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible employees. This self insured death benefit program is administered by the Department of the State Treasurer and funded via employer contributions.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 7 - PENSION PLANS

A. Retirement Plans - All full-time employees participate in the Teachers' and State Employees' Retirement System (the System) of North Carolina which is a multiple-employer, cost sharing defined benefit pension plan administered by the North Carolina State Treasurer. Additional detail information about the System is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

Benefits and contribution provisions for the System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for employees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total payroll for the year was \$1,152,486, of which \$1,118,844 was covered under the System. The following presents the three-year trend of annual required contributions (ARC) the Authority made to the System:

Fiscal Year	Authority's ARC as an Employer	Percentage of ARC Contributed
2002	\$ 22,041	100%
2001	64,605	100%
2000	77,542	100%

B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$41,026 for the year ended June 30, 2002.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The Authority participates in state administered programs which provide post employment health care benefits to eligible former employees. Additional detailed information about these programs is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. For the fiscal year ended June 30, 2002, the Authority contributed 2.35% of covered payroll to the Comprehensive Major Medical Plan or \$26,293. The Authority assumes no liability for these health care benefits provided by the programs other than its contribution.

B. Disability Income - The Authority participates in the Disability Income Plan of North Carolina (the Plan). Established by Chapter 135, Article 6, of the General Statutes, the Plan provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Additional detailed information about the Plan is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. For the fiscal year ended June 30, 2002, the Authority contributed .52% of covered payroll, or \$5,818, to the Plan. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - RELATED PARTIES

- A. Global TransPark Foundation, Inc.** - The Global TransPark Foundation, Inc. (Foundation) was established in 1992 as a nonprofit corporation. The Foundation was organized to support the development of the Global TransPark. The Foundation's revenues are generated primarily through private donation. The Foundation shares several common directors with the Authority. No significant financial transactions occurred between the Authority and the Foundation during the year ended June 30, 2002.
- B. Global TransPark Development Commission** - The Global TransPark Development Commission (Commission) is a corporate body created on November 29, 1993 by North Carolina General Statute 158-31. Although not directly connected with the development of the Global TransPark itself, the Commission supports economic development initiatives in its 13-member counties. A principal objective of the Commission is to accommodate businesses drawn to the region by the Global TransPark. The Authority appoints at least three but not more than seven of the Commission's 41-member board. No significant financial transactions occurred between the Authority and the Commission during the year ended June 30, 2002.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

- A. Environmental** - The Global TransPark is subject to a number of federal, State and local environmental laws, regulations, and policies. The environmental laws and regulations most applicable to the TransPark relate to wetlands, air emissions, wastewater discharges, and the handling, disposal and release of solid and/or hazardous wastes. More specifically, the TransPark may be subject to the Comprehensive Environmental Response, Compensation, and Liability Act, which imposes retroactive liability upon owners and operators of facilities, including the TransPark, for the release or threatened release of hazardous substances at on-site or off-site locations.

Before constructing a major federal action significantly affecting the environment, the TransPark must complete an environmental review and permitting process pursuant to applicable federal and State law and regulation. On September 8, 1997, the Federal Aviation Administration granted a favorable Record of Decision satisfactorily concluding the FAA's actions on the environmental process. On October 21, 1998, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Army Corps of Engineers issued a permit to discharge dredge or fill material for the initial construction of the Global TransPark. This permit allowed the Authority to proceed with construction.

The Authority intends to fully comply with all applicable environmental laws, regulations, and policies and does not currently anticipate any material adverse effects on its operations or financial condition as a result of its compliance therewith. The possibility that environmental liability may arise is an inherent risk in any development such as the TransPark. Additionally, unforeseeable legislative actions by federal, State or local governments regarding new environmental laws or regulations could increase the cost of and/or delay developing the TransPark.

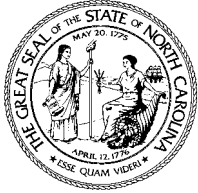
- B. Construction Commitments** – The Authority had outstanding commitments of \$4,369,448 at June 30, 2002 for capital improvement projects for the Runway Extension Project.

NOTE 11 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

New GASB Pronouncement - Effective July 1, 2001, the Authority implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant accounting changes in order to comply with the new requirements include classifying activities as operating or nonoperating and classifying assets and liabilities as current or noncurrent.

In addition, the Authority implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The new disclosure includes more detailed information on debt service requirements.

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Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
North Carolina Global TransPark Authority
Kinston, North Carolina

We have audited the financial statements of the North Carolina Global TransPark Authority as of and for the year ended June 30, 2002, and have issued our report thereon dated March 14, 2003.

As discussed in Note 11 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the North Carolina Global TransPark Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. The finding is described in the Audit Findings and Recommendations section of this report.

Finding

Funds Were Not Deposited on a Timely Basis

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina Global TransPark Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness in a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Authority, the Governor, the Office of State Budget, Planning and Management, the Office of the State Controller, and the General Assembly and is not intended to be, and should not be, used by anyone other than those specified parties.



Ralph Campbell, Jr.
State Auditor
March 14, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents significant deficiencies in internal controls or noncompliance with laws, regulations, contracts, or grants.

FUNDS WERE NOT DEPOSITED ON A TIMELY BASIS

Funds received by the Authority were not deposited in accordance with the Cash Management Plan. Our tests of 67 deposits disclosed 8 (11.9%) exceptions that were deposited from two to four days late. Another eight State appropriation checks were not stamped or logged as received. Therefore, we were unable to determine an exact date received. The Authority is not maximizing the interest-bearing investment of cash as a result of this noncompliance.

The Authority's Cash Management Plan has an exemption within the provisions of General Statute 147-77 that requires a daily deposit of all receipts. However, the Plan does require that deposits for \$250 or more be made daily before 2 pm to give credit for the deposit on the date of deposit. If possible, monies on hand for less than \$250 should be deposited daily before 2 pm. However, the deposit should be made no later than 2 pm the last business day of the week.

Recommendation: The Authority should advise all employees involved in the drawdown process on the requirements of the Cash Management Plan. All transactions should be stamped and logged as received. The Authority should inquire about transferring state appropriations electronically.

Authority's Response: The Authority acknowledges that, in the instances noted, it did not comply with General Statute 147-77 that requires daily deposits of receipts. Authority employees involved have been instructed about the importance of complying with the Cash Management Plan, and additional procedures have been established to ensure compliance. Additionally, the Authority has requested state appropriations be transferred electronically.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Charles H. W. Edwards	Acting Executive Director
	North Carolina Global TransPark Authority

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Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
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Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

May 19, 2003

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